



CENTRAL BANK OF KENYA

19TH ORDINARY MEETING OF THE MONETARY AFFAIRS COMMITTEE (MAC)

Melia - Kempinski Hotel- Zanzibar, Tanzania

Remarks by Dr. Patrick Njoroge
Governor of the Central Bank of Kenya
August 21, 2015

As Prepared for Delivery

As the newest member of this club, I would like to extend my sincere appreciation to Governor Beno Ndulu and the entire management of the Bank of Tanzania for the excellent organization and hospitality extended to me and my delegation. I am greatly honored to be a part of this dedicated team of management of central banks in the EAC. It is a pleasure for me to be here. You command a great reputation for astute leadership in central banking, especially in harmonizing functions, related processes and systems, directed towards the establishment of the East African Central Bank. But first things first.

As regards the business of today, I would like to commend you, for the various activities you have initiated under the auspices of the Monetary Affairs Committee (MAC) to support the EAC integration process. I take note that MAC has made commendable progress, particularly in the last decade, in harmonizing monetary policy frameworks, macroeconomic statistics, monetary and exchange rate operations, rules and practices governing bank supervision and national payments systems and financial reporting practices. This clearly demonstrates commitment and dedication of MAC in delivering its core mandate of enhancing monetary and financial cooperation in the EAC as a prelude to the establishment of the EAC monetary union (EAMU).

We must build on these successes to move the EAC integration agenda to the next level. Experience from other parts of the world, especially the Euro zone has shown that the road to a monetary union can be long and bumpy. It calls for adequate preparation, commitment and unwavering support from all stakeholders and more importantly, the political will of the Partner States. This must go hand- in-hand with public education and awareness creation to entrench the spirit of integration and enhance ownership of key programmes and activities among East African citizens.

In this regards, Central Banks must remain steadfast in delivering on their key mandate. They will collaborate with other stakeholders to ensure key ingredients of a monetary union are put in place within the timelines provided in the Road Map for EAMU. The critical milestones to this process include: attainment of macroeconomic convergence during the transition period, harmonization of policy, legal and regulatory frameworks, convertibility of the regional currencies and establishment of necessary institutions responsible for the implementation of the EAMU Protocol. As you are aware building capacity is a necessary adjunct and complement to this process; it ensures that Central Banks have the critical mass to undertake preparatory work for the monetary union. We therefore will prioritize our activities to ensure MAC programmes remain focused, time-bound with clear responsibility and measurable indicators. In turn, regular

consultations and interactions, at times necessitating changes in rules of engagement and innovative solutions are unavoidable.

Since April 2015, EAC currencies have experienced volatility arising mainly from developments in the global currency markets as well as widening current account deficit in the balance of payments. While the severity of the impact has varied country to country, the trend towards a worsening is conspicuous. We may want to recourse to a coordinated approach at the regional level to restore stability in the FX market and to contain second round effects on domestic inflation. The healthy buffer at the beginning of the year is now but gone. But are we clear regarding the channels of transmission and the magnitude of the effects? Which is the best line of defence...solo interventions at the bank level or a coordinated approach? What lessons can we draw on interventions and organization towards addressing the exchange rate volatility experienced in the 4th Quarter of 2011? At what level, besides the trend, for the short term money market interest rates? The recent upward trend and volatility of the interbank rate, seemingly with an own life, has frustrated implementation of monetary policy, producing daily changes beyond reasonable conjecture.

The expected normalization of monetary policy in the US and the Euro area is still a grey patch on the economic horizon. But with what impact? I have no clear answers to these questions. Digging in the relevant past experience (more on attitude than actions) and thinking out of the box may help. We are here to dream available options. I wish to commend our technical staff for working tirelessly over the past few days to produce a very comprehensive report. With purpose and a common vision, I also extend appreciation to the EAC Secretariat for their support in MAC activities.

Dear colleagues, I assure you of the Central Bank of Kenya's commitment to the implementation of the EAMU protocol and its road map. With these few remarks, I look forward to a fruitful engagement in discharging the agenda for this meeting.

Thank you.